A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

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JUNE, 1986

SUMMARY

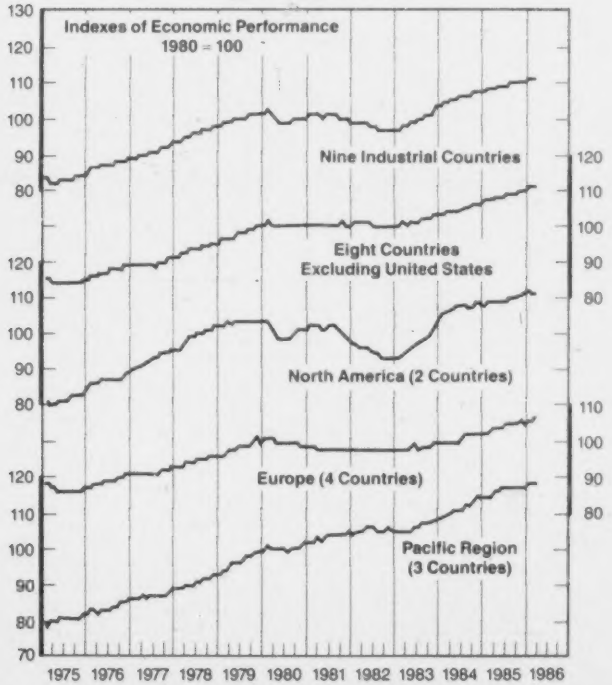
Recent data from the major industrial nations are sounding highly uncertain signals about where the world business cycle is headed. In the aggregate, both the performance indexes and the leading indexes continue to show the kind of moderate economic expansion that has prevailed for the past year and a half.

Among individual countries, however, the leading indexes now show much more diversity than earlier. In the U.S. and Italy, the portents of future expansion have strengthened. The opposite is happening in West Germany, Japan and Australia, where the leading indexes have declined in recent months. In each of these three cases, however, the results must be interpreted with caution, since part (but not all) of the weakness in these indexes may be attributable to the dramatic drop in oil prices — which is actually quite favorable to the longer term economic outlook in these oil-consuming economies.

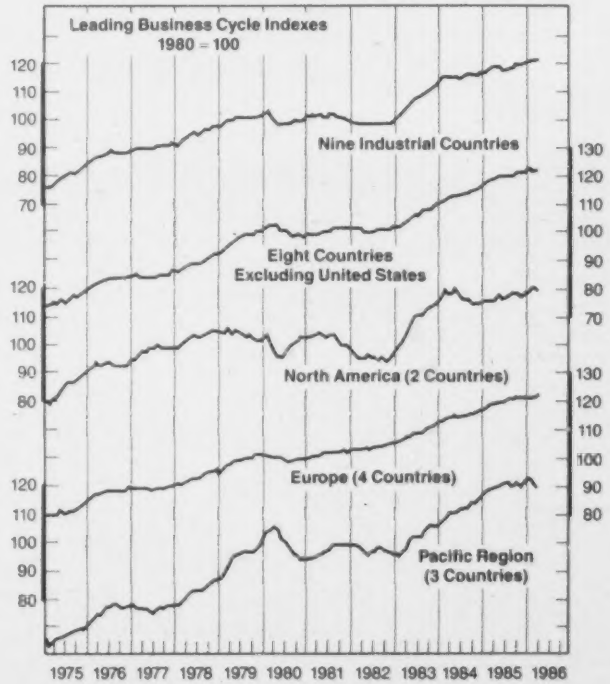
	Ten-year Growth Rate 1969-79	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**			*Current Reading on the Cycle*	*Latest Month Covered*
		6 mos. ago	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*		
	annual rates, percent								
9 countries	4	3	3	3	4	3	3	Expansion continuing	Mar.
8 countries ex. U.S.	4	4	3	3	5	3	2	Expansion continuing	Mar.
North America (2)	3	3	3	2	4	4	5	Expansion continuing	Mar.
Europe (4)	3	3	3	3	5	3	3	Expansion continuing	Mar.
Pacific Region (3)	5	3	3	3	4	3	–1	Expansion continuing, leaders weak	Mar.
United States	3	2	3	3	2	5	6	Expansion continuing	Apr.
Canada	4	5	5	3	6	6	5	Expansion continuing	Mar.
West Germany	3	5	5	6	6	3	–3	Expansion continuing, leaders weak	Apr./Mar.
France	4	4	4	4	5	3	5	Expansion continuing	Mar.
United Kingdom	2	3	2	2	0	2	2	Expansion continuing	Mar.
Italy	3	3	1	1	8	7	9	Expansion stalling, leaders strong	Jan./Mar.
Japan	5	2	3	2	3	2	–1	Expansion continuing, leaders weak	Apr./Mar.
Australia	4	8	8	4	11	1	–3	Expansion continuing, leaders weak	Mar.
Taiwan, R.O.C.	10	2	6	5	10	10	12	Expansion continuing	Apr.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed


Leading Business Cycle Indexes
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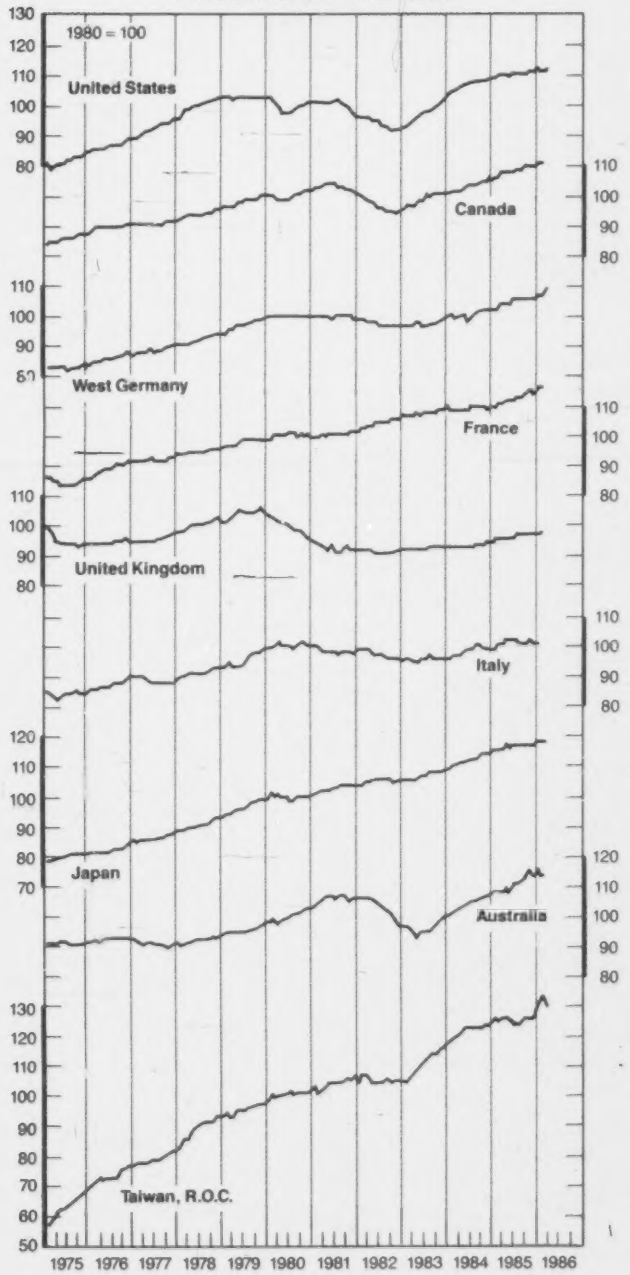
70th Anniversary

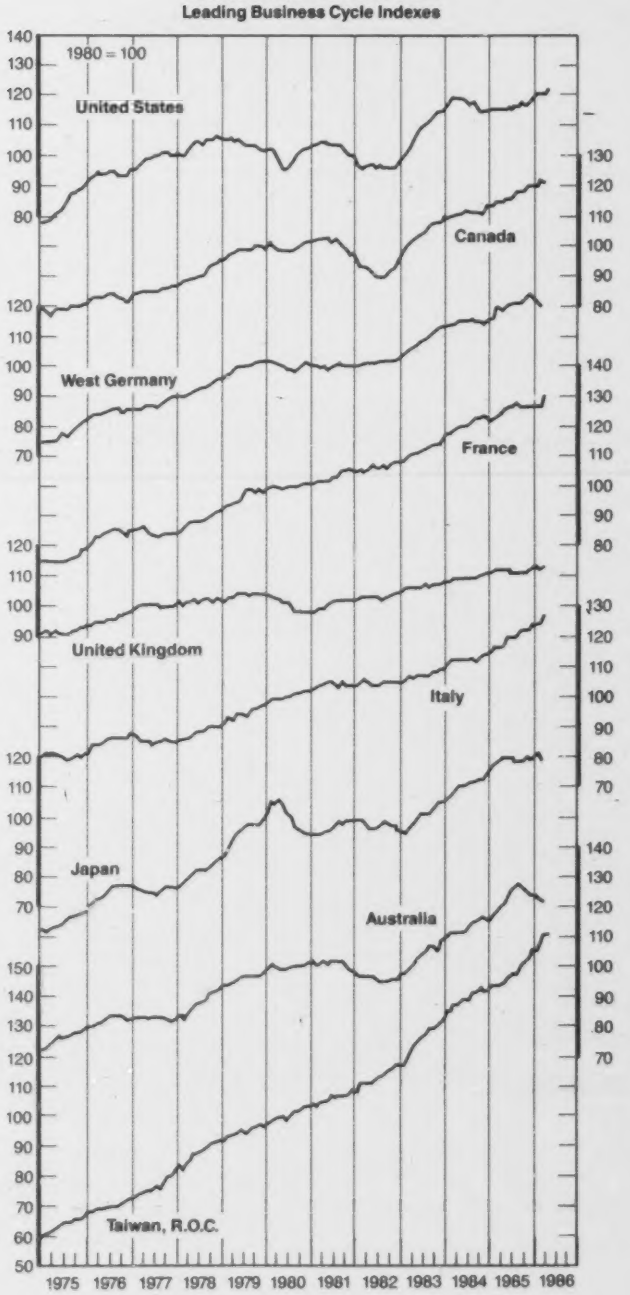
Where We Are

Indexes of Economic Performance



Where We're Headed

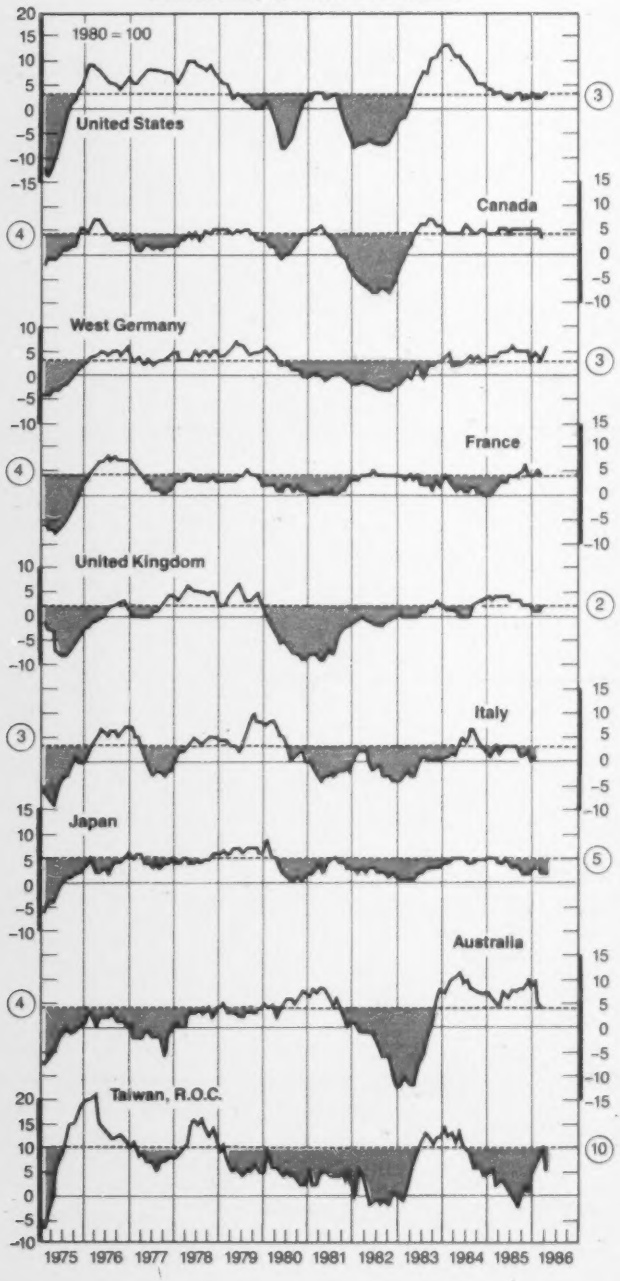
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

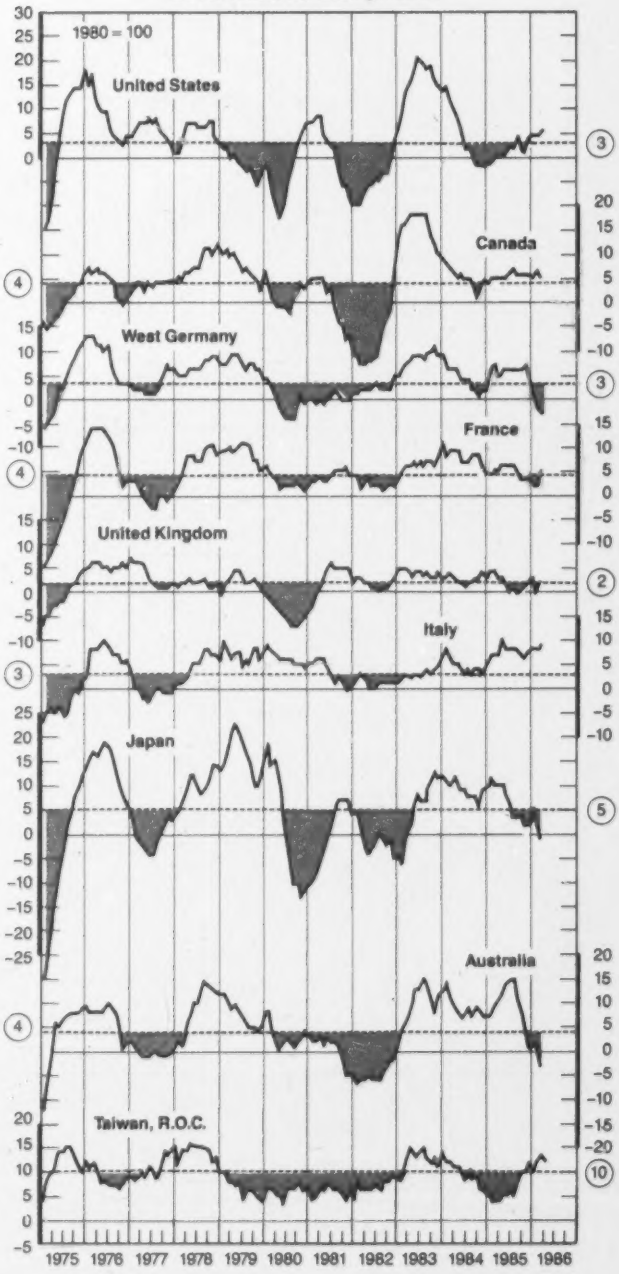
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP

Sources: CIBCR and The Conference Board

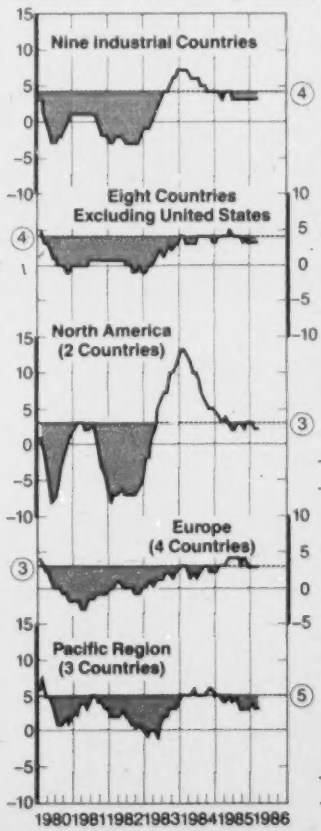
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Jan.	85	109	116	106	114	102	116	110	122	95	111	99	115	115	116	107	117	126	144
Feb.	85	109	116	106	114	102	119	110	123	95	112	100	117	115	117	108	118	127	144
Mar.	85	109	116	106	115	103	120	111	124	96	112	101	117	115	118	108	120	125	144
Apr.	85	110	116	107	115	104	119	111	125	96	112	101	118	116	119	108	121	126	145
May	85	110	116	108	116	104	120	112	126	96	112	102	120	117	119	110	123	126	146
June	85	109	116	108	116	104	120	112	127	96	112	102	120	116	119	109	125	125	147
July	85	110	117	108	117	106	121	113	127	96	111	102	120	117	119	111	127	125	148
Aug.	85	110	117	109	118	106	121	113	128	97	111	101	121	117	118	111	128	124	148
Sept.	85	110	118	109	118	106	122	113	127	97	111	101	122	117	118	113	127	124	151
Oct.	85	110	117	110	119	106	123	114	127	97	111	101	122	117	119	113	126	126	152
Nov.	85	111	117	110	120	106	123	115	127	97	111	102	122	117	119	115	125	126	153
Dec.	85	111	119	110	120	106	122	114	127	97	113	101	124	117	120	114	124	127	156
Jan.	86	112	120	111	120	107	121	115	127	97	113	101	125	118	121	116	124	130	156
Feb.	86	111	120	111	122	107	120	116	127	97	112		125	118	120	114	123	131	158
Mar.	86	111	120	111	121	107	119	116	130	98	113		127	118	118	114	122	133	161
Apr.	86	112	122			109								118				130	161
		Growth Rates, Percent																	
Jan.	85	4	-2	4	4	4	3	0	4	4	3	1	4	5	10	7	7	5	5
Feb.	85	4	-1	4	5	4	6	1	5	3	4	3	7	5	11	6	8	6	5
Mar.	85	3	0	4	5	4	7	2	5	4	4	4	7	4	10	5	10	2	4
Apr.	85	3	0	5	5	5	5	3	5	4	3	2	7	4	10	4	11	3	5
May	85	3	0	5	5	5	5	3	6	4	3	3	10	5	10	7	12	2	5
June	85	2	-1	4	5	5	6	3	6	4	2	3	8	4	8	6	14	1	5
July	85	2	2	5	6	6	6	4	6	3	0	3	8	4	6	7	15	-1	6
Aug.	85	3	2	5	7	5	6	4	6	3	1	1	8	4	3	7	15	-2	5
Sept.	85	3	4	5	6	5	6	4	5	3	0	1	8	3	3	8	11	-1	8
Oct.	85	2	2	5	6	5	6	5	3	2	0	1	7	2	4	8	8	2	10
Nov.	85	2	1	5	6	5	7	6	3	2	0	2	6	2	2	10	4	1	10
Dec.	85	3	4	5	6	3	3	4	3	2	2	0	7	2	2	8	1	2	12
Jan.	86	3	5	5	5	5	0	4	2	1	3	1	8	3	5	10	2	6	10
Feb.	86	2	5	5	7	4	-2	5	2	1	0		8	3	1	5	-1	8	12
Mar.	86	2	5	3	5	3	-3	4	5	2	2		9	2	-1	4	-3	10	13
Apr.	86	3	6			6								2				5	12
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Jan.	85	107	116	107	116	108	115	102	117	114	117
Feb.	85	108	117	107	118	109	116	103	118	114	118
Mar.	85	108	118	107	118	109	116	103	119	114	119
Apr.	85	108	118	108	119	109	116	103	119	115	120
May	85	109	118	108	120	109	116	104	120	116	120
June	85	109	118	109	120	109	116	104	120	116	120
July	85	109	119	109	120	109	117	105	120	116	121
Aug.	85	110	119	109	120	110	117	105	120	117	120
Sept.	85	110	120	109	120	110	118	105	121	117	120
Oct.	85	110	119	110	121	110	117	105	121	117	121
Nov.	85	110	119	110	121	111	117	103	121	117	120
Dec.	85	109	120	108	121	111	119	105	121	117	121
Jan.	86	111	121	110	122	112	120	108	121	118	123
Feb.	86	111	121	111	121	111	121	106	121	118	121
Mar.	86	111	121	111	121	111	120	107	122	118	120
		Growth Rates, Percent									
Jan.	85	4	2	3	5	4	-2	2	3	5	9
Feb.	85	4	3	4	7	4	-1	3	5	5	10
Mar.	85	3	4	4	7	3	0	3	6	4	10
Apr.	85	4	4	4	7	3	0	3	5	4	10
May	85	4	4	5	7	3	0	4	6	5	10
June	85	3	4	4	6	2	0	4	6	4	8
July	85	3	4	4	6	2	2	4	5	4	7
Aug.	85	4	4	4	5	3	2	4	5	4	4
Sept.	85	3	4	4	5	3	4	3	5	3	4
Oct.	85	3	3	3	4	2	2	4	4	3	5
Nov.	85	3	3	4	4	3	1	4	4	3	3
Dec.	85	3	3	3	3	3	4	3	3	3	3
Jan.	86	3	4	3	3	3	5	3	3	4	4
Feb.	86	3	3	3	2	2	6	3	1	3	1
Mar.	86	3	3	3	2	2	5	3	3	3	-1
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

Where We Are

Growth Rates, %, Performing Indexes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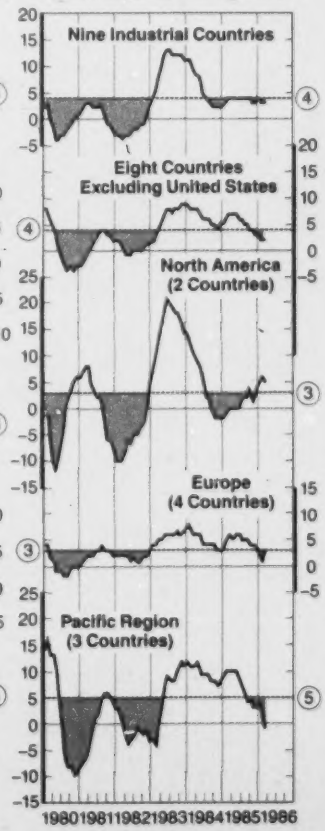
Where We're Headed

Growth Rates, %, Leading Indexes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1980 1981 1982 1983 1984 1985 1986

Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP

Sources: CIBCR and The Conference Board

FORECASTS OF SOLID GROWTH AHEAD: ARE THEY DEPENDABLE?

Some years ago, a book appeared which argued that slumlords, extortionists, usurers, blackmarketers and other groups usually considered pariahs weren't really all that bad. Why the author did not include economic forecasters is unknown; perhaps he thought they didn't need help, or maybe he felt they were beyond redemption. Today it would seem that most people support the latter position.

No one connected with the *International Economic Scoreboard* will argue that economic prognostication is an exact science. Far from it! Yet the record shows that the accuracy of economic forecasters did not deteriorate in the 1980s and, in fact, that it's better than most people realize. (Alternatively, it is probably equally true that forecasting accuracy in earlier decades was not as good as most people then thought it was.) In this issue of the *Scoreboard* we examine the record of forecasts of changes in real GNP for four major industrial countries in recent years. In addition, we examine the forecasts for 1986 and 1987.

In research sponsored by the American Statistical Association and the National Bureau of Economic Research, Victor Zarnowitz of the University of Chicago has conducted comprehensive studies of the accuracy of forecasts of the U.S. economy. His ongoing quarterly surveys of the outlook, which have been conducted since 1968 and include more than 25 forecasting services, examine the results for real growth, inflation, unemployment, consumer outlays for durable goods and other important economic variables. Perhaps his most significant conclusion is that "it is difficult for most individuals to predict consistently better than the group. . . ."In other words, there is a high probability that the consensus of a group will have a smaller average error over time than will the individual forecaster. This result has been confirmed by *Blue Chip Economic Indicators,* a monthly survey that covers 50 forecasters.

These studies have focused on the United States. Today, a more global view is required, as the recent summit meeting in Tokyo demonstrated. *Scoreboard* readers regularly receive this in the form of an analysis of where the business cycle is headed for nine major countries. In addition, it may be helpful to review the recent record of consensus forecasts for four countries from those compiled by *Blue Chip Economic Worldscan* (Capitol Publications, Arlington, VA). The Worldscan publication presents monthly projections of year-to-year percentage changes in real GNP and other economic indicators for ten major countries. Forty prominent forecasters from a half-dozen countries regularly participate in this survey, which began in 1982.

For changes in real GNP, the consensus forecasts that were made during the October preceding the forecast year for the United States, the United Kingdom, West Germany and Japan showed an average error (for all four countries) of 0.7 percentage points (see table).

Whether this represents a good, bad or indifferent forecasting record is a matter of judgment—a judgment that depends on your standards. One objective standard is the so-called "naive forecast," which calls for "no change in the rate of change". In other words, it assumes that during the year ahead the percentage change in real GNP will be the same as the current year's change. Use of this forecasting method would produce an average error in the annual GNP projections for the four countries of 1.8

AVERAGE ERRORS, WORLDSCAN CONSENSUS FORECASTS OF YEAR-TO-YEAR PERCENT CHANGES IN REAL GNP 1983-1985

Month of Forecast	*Forecast Interval*[a]	*United States*	*United Kingdom*	*West Germany*	*Japan*	*Average, 4 Countries*
	(in months)			(percentage points)		
Preceding Year						
January	-23	1.4	0.6	0.6	1.6	1.1
April	-20	1.2	0.6	0.5	1.5	1.0
July	-17	1.1	0.5	0.4	1.3	0.8
October	-14	1.2	0.6	0.0	1.1	0.7
Forecast Year						
January	-11	1.2	0.6	0.4	0.9	0.8
April	- 8	1.0	0.6	0.4	0.8	0.7
July	- 5	0.5	0.5	0.4	0.7	0.5
October	- 2	0.2	0.5	0.4	0.6	0.4

a) From date of forecast (col. 1) to end of forecast year.
Note: Average errors are calculated without regard to sign

percentage points. With an average error less than half as large, the Worldscanners clearly did a lot better than this simple benchmark.

As would be expected, forecast accuracy generally improves as the year ahead gets closer. More relevant information about things that will affect the year ahead is known in October than in the previous April. Consequently, how much precision one would expect depends on when the forecast is made. To gauge this, we have calculated the average errors of the year-to-year percent changes in real GNP forecasts made at three-month intervals, starting with forecasts made in January almost two years before the end of the forecast year, and ending in October just two months before the forecast year is over. The table provides the record for the four countries and shows that the earliest forecasts are subject to the largest errors, and the latest forecasts the smallest errors. This pattern is plain in the data for the U.S. and Japan. For the U.K. and West Germany, however, the tendency towards improvement is less evident. No doubt this is related to the fact that during this period the forecast errors for the U.K. and West Germany were relatively small right from the start. When your early forecast is close to the bullseye, it's hard to improve your record.

Looking Ahead. What are the Worldscanners telling us now? In the June survey, the consensus forecast for growth in U.S. real output in 1986 was 2.8 percent, an improvement from the 2.3 percent growth rate in 1985. Looking forward to 1987, the group forecasts a rise in output of 3.3 percent. For Germany and Japan, the consensus suggests that growth of output will be about 3½ percent in 1986. Compared to 1985, that means faster growth for Germany and slower growth for Japan. For 1987, Japanese growth is expected to improve slightly to 3.7 percent while the German advance will taper off to 3.1 percent. Economic growth in the U.K. is forecast to be 2½ percent in both 1986 and 1987.

In short, the forecasting fraternity anticipates fairly solid improvement in real output in the industrialized world over the next 18 months. Their past record suggests they're worth listening to.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

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